

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 95-006-E - ORDER NO. 95-1707 ✓

NOVEMBER 28, 1995

IN RE: Adjustment of Base Rates for Fuel)	ORDER APPROVING
Costs for Duke Power Company)	BASE RATES FOR
)	FUEL COSTS

On November 21, 1995, the Public Service Commission of South Carolina (the Commission) held a public hearing on the issue of the recovery of the costs of fuel used in electric generation by Duke Power Company (the Company) to provide service to its South Carolina retail electric customers. The procedure followed by the Commission is set forth in S.C. Code Ann., §58-27-865 (Cum. Supp. 1993). The review in this case is from June, 1995 through November, 1995.

At the public hearing, William F. Austin, Esquire, and Mary Lynne Grigg, Esquire, represented the Company; Elliott F. Elam, Jr., Esquire, represented the Intervenor, the Consumer Advocate of South Carolina; and F. David Butler, General Counsel, represented the Commission Staff. The record before the Commission consists of the testimony of two witnesses on behalf of the Company, two witnesses on behalf of the Commission Staff, and four hearing exhibits.

Based upon the evidence of the record, the Commission makes the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. The record of this proceeding indicates that for the period from April 1995 through September 1995 the Company's actual total fuel costs for its electric operations amounted to \$389,723,691. Hearing Exhibit No. 3, Accounting Exhibit E.

2. Staff reviewed and compiled a percentage generation mix statistic sheet for the Company's fossil, nuclear and hydraulic plants for April 1995 through September 1995. The fossil generation ranged from a high of 46% in July to a low of 25% in April. The nuclear generation ranged from a high of 74% in April to a low of 53% in July. The percentage of generation by hydro ranged from 1% to 3% for this period. Hearing Exhibit No. 4; Utilities Department Exhibit No. 3.

3. During the April 1995 through September 1995 period, coal suppliers delivered 5,752,307.55 tons of coal. The Commission Staff's audit of the Company's actual fuel procurement activities demonstrated that the average monthly received cost of coal varied from \$39.19 per ton in September to \$42.89 per ton in July. Hearing Exhibit No. 3, Accounting Exhibit A.

4. According to Company witness Steven K. Young, the performance of the Company's nuclear units equals or exceeds that of comparable facilities as demonstrated thusly:

Duke system actual capacity factors -

April 1995-September 1995	92%	1 unit refueled
October 1994-March 1995	85%	4 units refueled
12 months ended September 1995	89%	
Calendar 1994	82%	

National average capacity factors -

NERC data for PWR's		
Calendar 1993 and 1994	74%	
5 year 1990-1994	73%	

5. Staff collected and reviewed certain generation statistics of major Company plants for the six months ending September 30, 1995. Hearing Exhibit No. 4, Utilities Department Exhibit 4. The nuclear fueled Oconee Plant was lowest at 0.54 cents per kilowatt-hour. The highest amount of generation was 9,737,693 megawatt-hours produced at the nuclear fueled Catawba Station.

6. The Commission Staff conducted an extensive review and audit of the Company's fuel purchasing practices and procedures for the subject period. The Staff's accounting witness, Jacqueline R. Cherry, testified that the Company's fuel costs were supported by the Company's books and records. Cherry also discussed Duke's buy-out of a coal contract, and noted net savings of \$3.7 million for this subject period. Testimony of Cherry; Hearing Exhibit No. 3, Accounting Department Exhibits.

7. The Commission recognizes that the approval of the currently effective methodology for recognition of the Company's fuel costs requires the use of anticipated or projected costs of

fuel. The Commission further recognizes the fact inherent in the utilization of a projected average fuel cost for the establishment of the fuel component in the Company's base rates that variations between the actual costs of fuel and projected costs of fuel would occur during the period and would likely exist at the conclusion of the period. Section 58-27-865, supra, establishes a procedure whereby the difference between the base rate fuel charges and the actual fuel costs would be accounted for by booking through deferred fuel expenses with a corresponding debit or credit.

8. The record of this proceeding indicates that the comparison of the Company's fuel revenues and expenses for the period April 1995 through September 1995 produces an over-recovery of \$624,817. Staff added the projected over-recovery for October, 1995 of \$1,054,273 and the projected under-recovery for November, 1995 of \$837,151 to arrive at an over-recovery of \$841,939. Cherry testimony, p. 6-7.

9. The Company's projected average fuel expense for the December, 1995 through May, 1996 period is 1.0114 cents per KWH. However, when adjusted by the cumulative variance of fuel cost recovery, the adjusted fuel costs are 1.0033 cents per KWH. Young testimony, p. 11.

10. Company witness Young proposed that the fuel component in base rates of 1.00 cent/KWH be continued effective December 1, 1995. Young testimony, p. 12.

11. Staff witness Watts testified that using the currently projected sales and fuel cost figures through May 1996, and a

projected cumulative over-recovery of \$841,939 through November, 1995, the average projected fuel expense is approximately 1.0021¢/KWH for the six months ending May, 1996. The currently approved base fuel factor is 1.00¢/KWH. If the base fuel component remains at 1.00¢/KWH for this period, it will produce an estimated under-recovery of \$221,323. Testimony of Watts, p. 4; Hearing Exhibit No. 4, Utilities Department Exhibit 10.

12. During the period under review, Oconee Unit 3 was down for refueling during some portion of the time. Other scheduled and/or forced outages occurred during this time frame at these and the Company's other nuclear units. All outages were reviewed by Staff (Hearing Exhibit No. 4, Utilities Department Exhibit 2A) and a determination was made by Staff as to the prudence of the outages. Staff determined that there were no Company actions which required Duke's customers to incur higher fuel costs. Therefore, no disallowances of any fuel costs during the review period were recommended. Testimony of Watts, p. 2-3; Hearing Exhibit No. 4, Utilities Department Exhibit 2A.

CONCLUSIONS OF LAW

1. Pursuant to S.C. Code Ann., §58-27-865(A)(Cum. Supp. 1993), each electrical utility must submit to the Commission its estimated fuel costs for the next six (6) months. Following an investigation of these estimates and after a public hearing, the Commission directs each electrical utility "to place in effect in its base rate an amount designed to recover, during the succeeding six months, the fuel costs determined by the Commission to be

appropriate for that period, adjusted for the over-recovery or under-recovery from the preceding six-month period." Id.

2. S.C. Code Ann., Section 58-27-865(F)(Cum. Supp. 1993) requires the Commission to allow electrical utilities to recover "all their prudently incurred fuel costs... in a manner that tends to assure public confidence and minimize abrupt changes in charges to consumers."

3. As stated by the Supreme Court in Hamm v. South Carolina Public Service Commission, 291 S.C. 178, 352 S.E.2d 476, 478 (1987), Section 58-27-865(E) requires the Commission "to evaluate the conduct of the utility in making the decisions which resulted in the higher fuel costs. If the utility has acted unreasonably, and higher fuel costs are incurred as a result, the utility should not be permitted to pass along the higher fuel costs to its customers." "[T]he rule does not require the utility to show that its conduct was free from human error; rather it must show it took reasonable steps to safeguard against error." Id. at 478, citing Virginia Electric and Power Co. v. The Division of Consumer Council, 220 Va. 930, 265 S.E.2d 697 (1980).

4. The Commission recognizes that Section 58-27-865(E) provides it with the authority to consider the electrical utility's reliability of service, its economical generation mix, the generating experience of comparable facilities, and its minimization of the total cost of providing service in determining to disallow the recovery of any fuel costs.

5. After considering the directives of §58-27-865(A) and (F)

which require the Commission to place in effect a base fuel cost which allows the Company to recover its fuel costs for the next six months adjusted for the over-recovery or under-recovery from the preceding six month period, in a manner which assures public confidence and minimizes abrupt changes in charges, the Commission has determined that the appropriate base fuel factor for December 1995 through May 1996 is 1.00¢/KWH. The Commission finds that a 1.00¢/KWH fuel component will allow Duke to recover its projected fuel costs and, at the same time, prevent abrupt changes in charges to Duke's customers.


IT IS THEREFORE ORDERED THAT:

1. The base fuel factor for the period December, 1995 through May, 1996 is set at 1.00¢/KWH.
2. Within ten (10) days of the date of this Order, Duke Power Company shall file with the Commission, rate schedules designed to incorporate the findings herein, and an adjustment for fuel costs as demonstrated by Appendix A.
3. That the Company comply with the notice requirements set forth in S.C. Code Ann., §58-27-865(A) (Cum. Supp. 1991).
4. That the Company continue to file the monthly reports previously required.
5. That the Company account monthly to the Commission for the differences between the recovery of fuel costs through base rates and the actual fuel costs experienced by booking the difference to unbilled revenues with a corresponding deferred debit or credit.

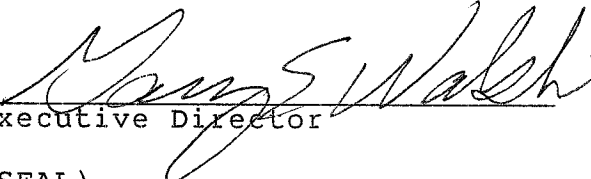
6. That the Company submit monthly reports to the Commission of fuel cost and scheduled and unscheduled outages of generating units with a capacity of 100 MW or greater.

7. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Deputy Executive Director
(SEAL)

DUKE POWER COMPANY
Adjustment for Fuel Costs

APPLICABILITY

This adjustment is applicable to and is a part of the Utility's South Carolina retail electric rate schedules.

The Public Service Commission has determined that the costs of fuel in an amount to the nearest one-thousandth of a cent, as determined by the following formula, will be included in the base rates to the extent determined reasonable and proper by the Commission for the succeeding six months or shorter period:

$$F = \frac{E}{S} + \frac{G}{S_1}$$

Where:

F= Fuel cost per Kilowatt-hour included in base rate, rounded to the nearest one-thousandth of a cent.

E= Total projected system fuel costs:

(A) Fuel consumed in the Utility's own plants and the Utility's share of fuel consumed in jointly owned or leased plants. The cost of fossil fuel shall include no items other than those listed in Account 151 of the Commission's Uniform System of Accounts for Public Utilities and Licensees. The cost of nuclear fuel shall be that as shown in Account 518 excluding rental payments on leased nuclear fuel and except that, if Account 518 also contains any expense for fossil fuel which has already been included in the cost of fossil fuel, it shall be deducted from this account.

PLUS

(B) Purchased power fuel costs such as those incurred in unit power and Limited Term power purchases where the fuel costs associated with energy purchased are identifiable and are identified in the billing statement.

PLUS

(C) Interchange power fuel costs such as Short Term, Economy, and other where the energy is purchased on economic dispatch basis.

Energy receipts that do not involve money payments such as Diversity energy and payback of storage energy are not defined as purchased or interchange power relative to this fuel calculation.

MINUS

(D) The cost of fuel recovered through intersystem sales including the fuel costs related to economy energy sales and other energy sold on an economic dispatch basis.

Energy deliveries that do not involve billing transactions such as Diversity energy and payback of storage are not defined as sales relative to this fuel calculation.

S = Projected system kilowatt-hour sales excluding any intersystem sales.

G = Cumulative difference between jurisdictional fuel revenues billed and fuel expenses at the end of the month preceding the projected period utilized in E and S.

S₁ = Projected jurisdictional kilowatt-hour sales for the period covered by the fuel costs included in E.

The appropriate revenue related tax factor is to be included in these calculations.

The fuel cost (F) as determined by Public Service Commission of South Carolina Order No. 95-1707 for the period December 1995 through May 1996 is 1.000 cent per kilowatt-hour.